

recognizes that the proposal could result in increasing a market maker's appointed options classes, the PSE is under an obligation to ensure that adequate market making capabilities and obligations will continue to exist in such classes. In this regard, the Commission expects the PSE to assess whether market makers have adequate capital to fulfill their continual market making obligations under PSE Rule 6.37 in all their appointed classes. Further, the in-person and general trading requirements applicable to market makers under PSE Rule 6.37¹⁰ should continue to ensure that market making is adequate in all appointed classes.¹¹

The Commission also believes that there may be circumstances in which it would be appropriate for the Options Appointment Committee to allow a market maker to exceed the six trading post maximum. Before allowing a market maker to exceed the six trading post maximum, however, the Commission expects the Options Appointment Committee to make a specific finding that special circumstances exist. In determining the existence of special circumstances, the Options Appointment Committee should identify the need to expand the trading post maximum, and consider, among other things, whether there continues to exist sufficient liquidity in that market maker's existing appointments, and whether that market maker will continue to have adequate capital to fulfill his or her market

temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of the price relationship between option contracts of the same class. Other requirements include maintaining certain minimum bid/ask differentials, and providing for maximum allowable bid and offer changes. The Commission notes that increasing the number of trading posts that may comprise a market maker's primary appointment zone does not in any way lessen a market maker's obligation to make a market.

PSE Rule 6.35 will continue to require that a market maker's primary appointment zone consist of contiguous posts, unless special circumstances exist and the Options Appointment Committee appoints non-contiguous posts.

¹⁰ PSE Rule 6.37, Commentary .07 generally requires that at least 60% of a market maker's transactions be executed by the market maker in-person, while present on the options trading floor, and provides sanctions for failing to meet this requirement. Moreover, PSE Rule 6.32, Commentary .02 allows market makers to elect to receive market maker treatment for off-floor opening transactions if the market maker, in addition to satisfying all of the other existing obligations imposed on market makers, executes at least 80% of his or her total transactions for any calendar quarter in-person and not through the use of orders. See Securities Exchange Act Releases No. 34338 (July 8, 1994), 59 FR 35965.

¹¹ The Commission notes that any further changes to this rule may warrant the development of additional standards to ensure adequate market making performance.

making obligations. Moreover, the Commission expects that any expansion in the trading post maximum would be temporary as market needs warrant.¹²

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹³ that the proposed rule change (SR-PSE-95-11) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁴

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-36369; File No. SR-Phlx-95-22]

Self-Regulatory Organizations; Order Approving Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 1, 2, 3, 4 and 5 to the Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Relating to the Listing and Trading of Options on the Phlx Super Cap Index

October 13, 1995.

I. Introduction

On April 10, 1995, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed a proposed rule change with the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² to provide for the listing and trading of index options on the Phlx Super Cap Index ("Super Cap Index" or "Index").

Notice of the proposal was published for comment and appeared in the Federal Register on May 16, 1995.³ On June 23, 1995, the Phlx submitted to the Commission Amendment No. 1 to its proposed rule change.⁴ On July 24,

1995, the Phlx submitted to the Commission Amendment No. 2 to its proposed rule change.⁵ On August 7, 1995, the Phlx submitted to the Commission Amendment No. 3 to its proposed rule change.⁶ On October 12, 1995, the Phlx submitted to the Commission Amendment Nos. 4 and 5 to its proposed rule change.⁷ No

new starting value of 350 as of May 31, 1995. Finally, the Phlx proposes to list LEAPs on the Super Cap Index pursuant to Phlx Rule 1101A(b)(iii). See Letter from Michele Weisbaum, Associate General Counsel, Phlx, to John Ayanian, Attorney, Office of Market Supervision ("OMS"), Division of Market Regulation ("Market Regulation"), Commission, dated June 23, 1995 ("Amendment No. 1").

⁵ The Phlx submitted Amendment No. 2 to its proposed rule change to withdraw the proposed amendment to Phlx Rule 1006A. See Letter from Michele Weisbaum, Associate General Counsel, Phlx, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated July 24, 1995 ("Amendment No. 2").

⁶ The Phlx submitted Amendment No. 3 to its proposed rule change to indicate that at all times, the 5 components of the Index must be options eligible. Therefore, the Index will be composed of the top 5 options eligible common stocks of U.S. Companies, measured by capitalization traded on the NYSE. The Phlx also indicated that it will evaluate the Index on a semi-annual basis to ensure that it is an accurate representation of the intended market character of the Index. If any components would need to be removed pursuant to these requirements, the Exchange will immediately notify the staff of the Division of Market Regulation and will file a new Rule 19b-4 submission if so determined by the Division staff prior to opening any new series of options. Additionally, the Exchange proposes to immediately replace any component that drops out of the top 10 highest capitalized stocks on the NYSE, without waiting for the next semi-annual review. The Exchange also proposes to notify the Division staff if, at any time, any one component issue represents 50% or more of the Index. See Letter from Michele Weisbaum, Associate General Counsel, Phlx, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated August 7, 1995 ("Amendment No. 3").

⁷ The Phlx submitted Amendment No. 4 to its proposed rule change to indicate that pursuant to proposed amendment to Phlx Rule 1047A, the opening rotation for Super Cap Index options may be held after underlying securities representing 75% of the current index value of all the securities underlying the index have opened for trading on the primary market. See Letter from Michele Weisbaum, Associate General Counsel, Phlx, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated October 12, 1995 ("Amendment No. 4").

Additionally, the Phlx submitted Amendment No. 5 to its proposed rule change to delete the reference to the Super Cap Index in proposed amended Phlx Rule 1101A, Commentary .01. The Phlx represents that it will include the proper reference to the Super Cap Index when it files proposal SR-Phlx-95-37 with the Commission. Specifically, the Phlx will propose to amend Phlx Rule 1101A, Commentary .01 to indicate that transactions may be effected until 4:15 p.m. each business day through the last trading day (ordinarily a Thursday) prior to expiration for Super Cap Index options, as well as other a.m. settled index options. The Exchange further represents that it will issue a circular to Phlx members disclosing this information. See Letter from Michele Weisbaum, Associate General Counsel, Phlx, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated October 12, 1995 ("Amendment No. 5").

¹² The Commission understands that the Options Floor Trading Committee will examine the appropriateness of any further changes to this rule in the near future. Telephone Conversation between Michael, D. Pierson, Senior Attorney, Market Regulation, PSE, and Francois Mazur, Attorney, Office of Market Supervision, Division of Market Regulation, Commission, on October 12, 1995.

¹³ 15 U.S.C. 78s(b)(2) (1988).

¹⁴ 17 CFR 200.30-3(a)(12) (1994).

¹⁵ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 35699 (May 10, 1995), 60 FR 26065.

⁴ The Phlx submitted Amendment No. 1 to its proposed rule change to replace Walmart with Philip Morris as one of the component issues of the Super Cap Index. The Phlx also proposes to set a

comment letters were received on the proposed rule change. This order approves the Exchange's proposal, as amended.

II. Description of the Proposal

A. General

The Phlx proposes to list for trading options on the Phlx Super Cap Index, a new securities index developed by the Phlx and based on the top five capitalized, options eligible U.S. stocks traded on the New York Stock Exchange ("NYSE"). The Phlx further proposes to amend Phlx Rules 1000A, Applicability and Definitions; 1001A, Position Limits; 1047A, Trading Rotations, Halts or Reopenings; 1101A, Terms of Option Contracts; and 722, Margin Accounts, to include references to this proposed Index. The Phlx will use a capitalization-weighted methodology to calculate the value of the Index.⁸

B. Composition of the Index

The Index was designed by the Exchange and is composed of the 5 most highly capitalized, standardized options-eligible common stocks of U.S. companies currently trading on the NYSE.⁹ All component stocks are "reported securities," as that term is defined in Rule 11Aa3-1 of the Act.¹⁰

As of May 31, 1995, the market capitalizations of the individual securities in the Index ranged from a high of \$98.2 billion (General Electric Company) to a low of \$61.6 billion (Philip Morris Companies Inc.), with the mean being \$81.4 billion. The market capitalization of all the securities in the Index was \$406.9 billion. The total number of shares outstanding on that date for the stocks in the Index ranged from a high of 1.7 billion shares (General Electric Company) to a low of 844 million shares (Philip Morris Companies Inc.). Also on that date, the price per share in the U.S. of the securities in the Index ranged from a high of \$72.88 (Philip Morris Companies Inc.) to a low of \$50.75 (AT&T Corp.). In addition, the average

daily trading volume in the U.S. of the stocks in the Index, for the six-month period from January 1, 1995 to June 30, 1995, ranged from a high of 2.4 million shares per day (AT&T Corp.) to a low of 1.2 million shares per day (Exxon Corporation). Lastly, no one component accounted for more than 24.15% (General Electric Companies), or less than 15.13% (Philip Morris Companies), of the Index's total value.¹¹

C. Maintenance

The Phlx has retained Bridge Data, Inc. to compute and do all necessary maintenance of the Index. The Phlx may change the composition of the Index at any time, subject to compliance with the maintenance criteria discussed herein, to reflect the 5 largest options eligible stocks, by capitalization, listed on the NYSE. In accordance with Phlx Rule 1009A, if it becomes necessary to replace a security in the Index, the Exchange represents that it will be replaced with a stock which reflects the intended market character of the Index.¹² If any change in the nature of any stock in the Index occurs as a result of delisting, merger, acquisition or otherwise, the Exchange will take appropriate steps to delete that stock from the Index and replace it with another stock which is in the top five, as measured by capitalization, of options eligible issues traded on the NYSE at the time the Phlx makes the substitution. The Exchange represents that all of the stocks comprising the Index are options eligible and have overlying options currently trading.¹³ If the Exchange determines to increase or decrease the number of component issues, the Exchange will submit a new proposed rule change pursuant to Section 19(b) of the Act and that proposal would have to be specifically approved by the Commission before any

trading in the revised index could commence.¹⁴

The Phlx will evaluate the Index on a semi-annual basis to ensure that it is an accurate representation of the five largest options eligible stocks, measured by capitalization, traded on the NYSE. Public notice of any changes will be made immediately and the Phlx will then make any substitutions, if necessary, of the component issues of the Index on the first business day after the January and July expirations for the Super Cap Index options. If any components would have to be changed because a component issue was no longer options-eligible, the Exchange proposes to immediately notify the Commission's Division of Market Regulation ("Division") and will file a new Rule 19b-4 submission prior to opening any new series of options, if so required by the Division staff. Further, if at any time during the year, a component issue of the Index drops out of the top 10 highest capitalized stocks on the NYSE, the Exchange will not wait for the next semi-annual review to replace it.¹⁵

D. Applicability of Phlx Rules Regarding Index Options

Except as modified by this order,¹⁶ Phlx Rules 1000A through 1103A, and Phlx Rules 1000 through 1070, in general, will be applicable to Super Cap Index options. Those rules address, among other things, the applicable position and exercise limits, policies regarding trading halts and suspensions, restrictions on exercise, and margin treatment for the Super Cap Index options.

E. Calculation of the Index

The Phlx Super Cap Index will be calculated using a capitalization-weighting methodology. The representation of each security in the Index will be proportional to the security's last sale price multiplied by the total number of shares outstanding, in relation to the total market value of all of the securities in the Index. The value of the Index was set to equal 350 on May 31, 1995.¹⁷ As of August 1, 1995, the Index value was 357.72. The formula for calculating the Index value is as follows:

$$\text{Current Index Value} = \frac{\text{Total Capitalization}}{\text{Divisor}}$$

Where:

¹⁴ See *infra* note 30.

¹⁵ See Amendment No. 3, *supra* note 6.

¹⁶ See *infra* Section II.G.

¹⁷ See Amendment No. 1, *supra* note 4.

⁸ See *Infra* Section II.E, entitled "Calculation of Index," for a description of this calculation method.

⁹ Currently, the components of the Index are: General Electric Company; Exxon Corporation; AT&T Corp.; Coca-Cola Company; and Philip Morris Companies Inc.

¹⁰ See 17 CFR 240.11Aa3-1. A "reported security" is defined in paragraph (a)(4) of this rule as "any listed equity security or NASDAQ security for which transaction reports are required to be made on a real-time basis pursuant to an effective transaction reporting plan." A "transaction reporting plan" is defined in paragraph (a)(2) of this rule as "any plan for collecting, processing, making available or disseminating transaction reports with respect to transactions in reported securities filed with the Commission pursuant to, and meeting the requirements of, this section."

¹¹ The weightings of all 5 components of the Super Cap Index as of May 31, 1995 are as follows: General Electric Company—24.15%; Exxon Corporation—21.79%; AT&T Corp.—19.74%; Coca-Cola Company—19.20%, and Philip Morris Companies Inc.—15.13%.

¹² The Exchange represents that any future replacement component securities will be in the top five, as measured by capitalization, of options eligible issues traded on the NYSE at the time the Phlx makes the substitution.

¹³ The Phlx's options listing standards, which are uniform among the options exchanges, provide that a security underlying an option must, among other things, meet the following requirements: (1) The public float must be at least 7,000,000 shares; (2) there must be a minimum of 2,000 stockholders; (3) trading volume in the U.S. must have been at least 2.4 million over the preceding twelve months; and (4) the U.S. market price must have been at least \$7.50 for a majority of the business days during the preceding three calendar months. See Phlx Rule 1009, Commentary .01.

Total Capitalization=Sum of Market Values (price \times shares outstanding) for all component securities
 Divisor=The number which, when divided from the total capitalization when the Index was initially calculated (on May 31, 1995), yielded an Index value of 350.

To maintain the continuity of the Index, the divisor will be adjusted to reflect non-market changes in the capitalization of the component securities as well as changes in the composition of the Index. Changes that may result in divisor adjustments include, but are not limited to, stock splits and dividends, spin-offs, certain rights issuances, and mergers and acquisitions. The formula for adjusting the divisor is as follows:

$$\text{Divisor} = \frac{\text{Total Capitalization (as result of adjustment)}}{\text{Index Value}}$$

Adjustments in the value of the Index which are necessitated by the addition and/or deletion of an issue from the Index are made by adding and/or subtracting the market value of the relevant issues.

The Super Cap Index will be updated dynamically at least once every 15 seconds during the trading day.¹⁸ The Phlx has retained Bridge Data, Inc. to compute the value of the Index. Pursuant to Phlx Rule 1100A, updated Index values will be disseminated and displayed by means of primary market prints reported by the Consolidated Tape Association and over the facilities of the Options Price Reporting Authority ("OPRA"). The Index value will also be available on broker/dealer interrogation devices to subscribers of the option information.

The Index value for purposes of settling outstanding Index options contracts upon expiration will be calculated based upon the regular way opening sale prices for each of the Index's component stocks on the last trading day prior to expiration. Once all of the component stocks have opened, the value of the Index will be determined and that value will be used as the final settlement value for expiring Index option contracts. If any component stocks do not open for trading on the last trading day before expiration, then the last reported sale price of such security will be used in

any case where that security does not trade on that day.

F. Contract Specifications

The proposed options on the Index will be cash-settled, European-style options.¹⁹ The Super Cap Index options will trade from 9:30 a.m. to 4:15 p.m. eastern time.²⁰ The Index multiplier will be 100. Strike prices will be set at five point intervals in terms of the current value of the Index.²¹

The Phlx will trade consecutive and cycle month series pursuant to Phlx Rule 1101A. Specifically, there will be three expiration months from March, June, and December cycle plus two additional near-term months so that the three nearest term months will always be available. In addition, pursuant to and in accordance with Phlx Rule 1101A(b)(iii), the Exchange will list and trade series of LEAPs on the Index.²²

Index options will expire on the Saturday following the third Friday of the expiration month. Because options on the Index will settle based upon the opening prices of the component stocks on the last business day before expiration (ordinarily a Friday), the last trading day for an expiring Index option series will be the second to the last business day before expiration (ordinarily a Thursday).

G. Position and Exercise Limits, Margin Requirements, and Trading Rotations, Halts or Reopenings

Because the Super Cap Index is not classified as either an "industry index" or a "market index" under Phlx rules, the Exchange proposes new rules that specifically address the Super Cap Index.²³ The Exchange proposes amendments to rules governing margin requirements,²⁴ position and exercise

limits, and trading rotation, halt, or reopening procedures.²⁵

Specifically, pursuant to proposed amendments to Phlx Rules 1001A and 1002A, respectively, the position and exercise limits for the Index options will be 5,500 contracts on the same side of the market. The Super Cap Index will not have available a position limit hedge exemption. Additionally, Super Cap Index option positions will not be aggregated with equity option positions on the same underlying component stocks for the purpose of calculating position limits.

H. Surveillance

The Exchange will use the same surveillance procedures currently utilized for each of the Exchange's other index options to monitor trading in the Super Cap Index options. These procedures include complete access to trading activity in the underlying securities. Further, the Intermarket Surveillance Group Agreement, dated July 14, 1983, as amended on January 29, 1990, will be applicable to the trading of options on the Index.²⁶

III. Commission Finding and Conclusions

The Commission finds that the proposed rule change is consistent with

²⁵ Pursuant to proposed amendment to Phlx Rule 1047A, the opening rotation for industry index options and Super Cap Index options may be held after underlying securities representing 75% of the current index value of all the securities underlying the index have opened for trading on the primary market. Once the underlying securities representing 90% of the current index value of all the securities underlying the index have opened for trading on the primary market, the opening rotation must be held as soon as practicable. Additionally, trading on the Phlx of Index options may be halted whenever trading in underlying securities whose weighted value represents more than 10% of the Index value are halted or suspended. See Amendment No. 4, *supra* note 7.

²⁶ The Intermarket Surveillance Group ("ISG") was formed on July 14, 1983 to, among other things, coordinate more effectively surveillance and investigative information sharing arrangements in the stock and options markets. See Intermarket Surveillance Group Agreement, July 14, 1983. The most recent amendment to the ISG Agreement, which incorporates the original agreement and all amendments made thereafter, was signed by ISG members on January 29, 1990. See Second Amendment to the Intermarket Surveillance Group Agreement, January 29, 1990. The members of the ISG are: the American Stock Exchange; the Boston Stock Exchange, Inc.; the Chicago Board Options Exchange, Inc.; the Chicago Stock Exchange, Inc.; the National Association of the Securities Dealers, Inc.; the NYSE; the Pacific Stock Exchange, Inc.; and the Phlx. Because of the potential opportunities for trading abuses involving stock index futures, stock options, and the underlying stock and the need for greater sharing of surveillance information for these potential intermarket trading abuses, the major stock index futures exchanges (e.g., the Chicago Mercantile Exchange and the Chicago Board of Trade) joined the ISG as affiliate members in 1990.

¹⁸ To the extent that a component stock does not open for trading on a particular trading day, or trading in that component stock is halted during the course of a particular trading day, the last reported sale price of such security will be used for purposes of calculating the current Index value.

¹⁹ A European-style option can be exercised only during a specified period before the option expires.

²⁰ Transactions in the Super Cap Index option may be effected on the Exchange until 4:15 p.m. each business day and through the last trading day (ordinarily a Thursday) prior to expiration. See Amendment No. 5, *supra* note 7.

²¹ Additional exercise prices will be added in accordance with Phlx Rule 1101A(a).

²² See Amendment No. 1, *supra* note 4.

²³ See Phlx Rule 1000A(11).

²⁴ Pursuant to the proposed amendment to Phlx Rule 722, the margin requirements for the Index options will be: (1) For short options positions, 100% of the current market value of the options contract plus 20% of the underlying aggregate Index value, less any out-of-the-money amount, with a minimum requirement of the options premium plus 10% of the underlying Index value; and (2) for long options positions, 100% of the options premium paid. These margin requirements are identical to industry index, and equity options margin requirements.

the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, the requirements of Section 6(b)(5) of the Act.²⁷ Specifically, the Commission finds that the trading of Super Cap Index options will serve to promote the public interest and help to remove impediments to a free and open securities market by providing investors with a means of hedging exposure to market risk associated with securities representing the most highly capitalized companies.²⁸

A. Index Design and Structure

The Commission believes that it is appropriate to allow the Phlx to trade options based on the Super Cap Index, which is comprised of the top five capitalized, options-eligible issues traded on the NYSE. The Commission recognizes, however, that the Super Cap Index does not properly qualify as either as market or industry index. The Super Cap Index consists of a very small number of stocks, and therefore does not qualify as a broad-based market index. Moreover, it does not represent any particular industry sector. In addition, as discussed in greater detail below, the small number of the index components raises concerns that the Index would be used as a surrogate for individual equity options trading. This raises questions as to whether the Super Cap Index should trade at all as an index product. Nevertheless, for the reasons discussed in more detail below, the Commission believes the Phlx has proposed a reasonable approach that specifically designates the Super Cap Index as eligible for options trading and that applies specific rules applicable to the Index options covering margin, position and exercise limits, trading rotations, halts, and reopenings, and trading hours.²⁹

First, the extremely large capitalizations, very liquid markets, and relative weightings of the Index's component securities helps to reduce the potential for manipulation of the

Index. Every component security of the Index is actively traded, with an average daily volume for the period from January 1, 1995 to June 30, 1995, ranged from a high of 2.4 million shares per day to a low of 1.2 million shares per day. The market capitalizations of the securities in the Index are very large, ranging from a high of \$93.8 billion to a low of \$59.7 billion as of April 5, 1995, with the mean being \$78.7 billion. Second, although the Index is only comprised of five component securities, no one particular security dominates the Index. Specifically, as of May 31, 1995, no one stock accounted for more than 24.15% of the Index's total capitalization. Third, every component of the Index must, at all times, be eligible for standardized options trading. Fourth, the five securities are derived from different industry sectors. Fifth, if the Phlx desires to increase or decrease the number of component securities from five, the Phlx will be required to seek Commission approval pursuant to Section 19(b)(2) of the Act.³⁰ This will help protect against material changes in the composition and design of the Index that might adversely affect the Phlx's obligations to protect investors and to maintain fair and orderly markets in Index options. Finally, the Index is comprised, and in the future may only be comprised, of stocks listed and traded on the NYSE. This requirement will help to ensure that each component of the Index is a registered security subject to last sale reporting requirements in the United States and will further reduce the potential for manipulation of the value of the Index.

B. Customer Protection

The Commission believes that a regulatory system designed to protect public customers must be in place before the trading of sophisticated financial instruments, such as Super Cap Index options, can commence on a national securities exchange. The Commission notes that the trading of standardized exchange-traded options occurs in an environment that is designed to ensure, among other things, that: (1) The special risks of options are disclosed to public customers; (2) only investors capable of evaluating and bearing the risks of options trading are engaged in such trading; and (3) special compliance procedures are applicable to options accounts. Accordingly, because the Index options will be subject to the

same regulatory regime as the other standardized options currently traded on the Phlx, the Commission believes that adequate safeguards are in place to ensure the protection of investors in Super Cap Index options.

C. Surveillance

The Commission believes that a surveillance sharing agreement between an exchange proposing to list a security index derivative product and the exchange(s) trading the securities underlying the derivative product is an important measure for surveillance of the derivative and underlying securities markets. Such agreements ensure the availability of information necessary to detect and deter potential manipulations and other trading abuses, thereby making the security index product less readily susceptible to manipulation.³¹ In this regard, the Phlx, and the NYSE, which is the primary market for all of the stocks comprising the Index, as well as the markets currently trading individual equity options on the components, are all members of the ISG, which provides for the exchange of all necessary surveillance information.³²

D. Market Impact

The Commission believes that the listing and trading on the Phlx of options on the Super Cap Index will not have an adverse impact on the underlying securities markets.³³ First, as described above, no security overwhelmingly dominates the Index. Second, because all five components of the Index must meet the Exchange's options listing standards, it will help to ensure that the component securities will remain liquid and actively traded and the Index will not be used as a surrogate to trade options on a security not eligible for options trading.

Third, the five components of the Index are the five most highly-capitalized, and five of the most actively-traded U.S. exchange listed securities. Specifically, as noted above, the market capitalizations of the individual securities in the Index, as of May 31, 1995, ranged from a high of

²⁷ 15 U.S.C. 78f(b)(5).

²⁸ Pursuant to Section 6(b)(5) of the Act, the Commission must predicate approval of any new option proposal upon a finding that the introduction of such new derivative instrument that served no hedging or other economic function, because any benefits that might be derived by market participants likely would be outweighed by the potential for manipulation, diminished public confidence in the integrity of the markets, and other valid regulatory concerns. In this regard, the trading of listed Index options will provide investors with a hedging vehicle that should reflect the overall movement of stocks representing the 5 largest issues, as measured by capitalization, that are listed on the NYSE.

²⁹ See *supra* Sections II.F and II.G.

³⁰ The Commission notes that if an exchange should propose to list and trade an index with fewer than five equity stocks, it would be difficult for the Commission to allow it to be traded as an index product pursuant to SRO index option rules.

³¹ See Securities Exchange Act Release No. 31243 (September 28, 1992), 57 FR 45849 (October 5, 1992).

³² See *supra* note 26.

³³ In addition, the Phlx has represented that the Phlx and OPRA have the necessary systems capacity to support those new series of index options that would result from the introduction of options on the Super Cap Index. See Letter from William H. Morgan, Vice President, Trading Systems, Phlx, to Michael Walinskas, Branch Chief, OMS, Market Regulation, Commission, dated August 22, 1995; and Letter from Joseph P. Corrigan, Executive Director, OPRA, to Murray Ross, Secretary, Phlx, dated August 17, 1995.

\$98.2 billion to a low of \$61.6 billion. Additionally, the total number of shares outstanding on that date for the stocks in the Index ranged from a high of 1.7 billion shares to a low of 844 million shares. Also on that date, the price per share in the U.S. of the securities in the Index ranged from a high of \$72.88 to a low of \$50.75. In addition, the average daily trading volume in the U.S. of the stocks in the Index, for the six-month period from January 1, 1995 to June 30, 1995, ranged from a high of 2.4 million shares per day, to a low of 1.2 million shares per day. As a result, the component securities of the Index represent the absolute highest levels of market capitalization and liquidity of companies listed on any U.S. exchange.

Fourth, the 5,500 contract position and exercise limits applicable to the Index options and the lack of a hedge exemption will serve to further minimize potential manipulation and market impact concerns. Additionally, unlike position and exercise limits for industry index options which currently fluctuate depending on concentration levels and trading volume of the underlying component securities, the Super Cap Index position and exercise limits will remain set at the 5,500 contract level under Phlx rules.³⁴ The Commission believes that setting the position and exercise limits relatively low for an index composed of such highly capitalized stocks and eliminating the hedge exemption should help to alleviate concerns that the Index would be used by market participants to exceed the equity position limits for individual equity options on the component securities.

The Commission believes that it is appropriate that margin requirements for the Super Cap Index options will be: (1) For short options positions, 100% of the current market value of the options contract plus 20% of the underlying aggregate Index value, less any out-of-the-money amount, with a minimum requirement of the options premium plus 10% of the underlying Index value; and (2) for long options positions, 100% of the options premium paid, as proposed in amended Phlx Rule 722—"Margin Accounts." This margin requirement is the same as applied to both industry index options and individual equity options. The

Commission believes that this proposed margin requirement is appropriate for an index of only five securities.

Lastly, the Commission believes that settling expiring Super Cap Index options based on the opening prices of component securities is consistent with the Act. As noted in other contexts, valuing options for exercise settlement on expiration based on opening prices rather than closing prices may help reduce the "Expiration Friday" effects on markets for securities underlying options on the Index.³⁵

E. Accelerated Approval of Amendment No. 1

The Commission finds good cause for approving Amendment No. 1 to the proposed rule change prior to the thirtieth day after the date of publication of the notice thereof in the Federal Register. Specifically, Amendment No. 1 proposes to allow the Phlx to (1) Replace Walmart with Philip Morris as one of the component issues of the Super Cap Index; (2) set a new starting value of 350 for the Super Cap Index as of May 31, 1995; and (3) list LEAPs on the Index pursuant to Phlx Rule 1101A(b)(iii). The Commission notes that the Index does not yet underlie any options trading, therefore replacing a component issue to conform with the intended market character of the Index, and the setting of a new starting value for the Index does not raise any new regulatory issues. The Commission also notes that because Phlx Rule 1101A(b)(iii) generally permits the Exchange to list series of LEAPs on stock indexes, the Commission finds that the portion of Amendment No. 1 relating to the listing of series of LEAPs on the Index presents no new regulatory issues. Accordingly, the Commission believes that it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to approve Amendment No. 1 to the Phlx proposal on an accelerated basis.

F. Accelerated Approval of Amendment No. 2

The Commission finds good cause for approving Amendment No. 2 to the proposed rule change prior to the thirtieth day after the date of publication of the notice thereof in the Federal Register. Specifically, Amendment No. 2 to the proposed rule change withdraws the proposed amendment that included reference to Super Cap Index options (a European-style option) in Rule 1006A, "Other Restrictions on Options Transactions

and Exercises." The Commission recently approved a proposed rule change by the Phlx to delete restrictions on exercise respecting specific European-style index options, because a European-style option can be exercised only during a specific period before the option expires. Accordingly, the Commission believes that it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to approve Amendment No. 2 to the Phlx proposal on an accelerated basis.

G. Accelerated Approval of Amendment No. 3

The Commission finds good cause for approving Amendment No. 3 to the proposed rule change prior to the thirtieth day after the date of publication of the notice thereof in the Federal Register. Specifically, the Phlx proposes to amend the composition of the Index so that it will be comprised of the 5 most highly capitalized, *options-eligible* common stocks of U.S. companies listed on the NYSE (emphasis added). Additionally, the Phlx will evaluate the Index to ensure that it accurately represents the intended market character of the Index on a semi-annual basis, rather than annually, as originally proposed. If any components would have to be changed because a component issue was no longer options eligible, the Exchange proposes to immediately notify the Division of Market Regulation and will file, pursuant to Section 19(b) of the Act, a submission prior to opening any new series of options, if so required by the Division staff. Further, if at any time during the year, a component issue of the Index drops out of the top 10 highest capitalized stocks on the NYSE, the Exchange will not wait for the next semi-annual review to replace it. The Commission notes that Amendment No. 3 does not raise any new regulatory issues and actually improves the procedures for maintaining the Index. Accordingly, the Commission believes that it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to approve Amendment No. 3 to the Phlx proposal on an accelerated basis.

H. Accelerated Approval of Amendment No. 4

The Commission finds good cause for approving Amendment No. 4 to the proposed rule change prior to the thirtieth day after the date of publication of the notice thereof in the Federal Register. Specifically, the Phlx proposes to amend Phlx Rule 1047A, to indicate that the opening rotation Super Cap Index options may be held after underlying securities representing 75%,

³⁴ See Securities Exchange Act Release No. 36194 (September 6, 1995), 60 FR 47637 (September 13, 1995) (order approving new three-tiered position and exercise limits for industry index options. See also SR-Phlx-95-16. Any proposed increase in the position and exercise limits for Super Cap Index options would have to be submitted as a proposed rule change under Section 19(b) of the Act and specifically approved by the Commission.

³⁵ See Securities Exchange Act Release No. 30944 (July 21, 1992), 57 FR 33376 (July 28, 1992).

rather than 50%, of the current index value of all the securities underlying the index have opened for trading on the primary market. The Commission notes that Amendment No. 4 does not raise any new regulatory issues and ensures that at least a majority of the 5 components will be open for trading before index option trading can commence. Accordingly, the Commission believes that it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to approve Amendment No. 4 to the Phlx proposal on an accelerated basis.

I. Accelerated Approval of Amendment No. 5

The Commission finds good cause for approving Amendment No. 5 to the proposed rule change prior to the thirtieth day after the date of publication of the notice thereof in the Federal Register. Specifically, the Phlx proposes to delete the reference to the Super Cap Index in Phlx Rule 1101A, Commentary .01 regarding trading hours. The Commission believes that Amendment No. 5 is reasonable because the Phlx represents that it will include the proper reference to the Super Cap Index when it files proposal SR-Phlx-95-37 with the Commission. Specifically, the Phlx will propose to amend Phlx Rule 1101A, Commentary .01 to indicate that transactions may be effected until 4:15 p.m. each business day through the last trading day (ordinarily a Thursday) prior to expiration for Super Cap Index options, as well as other a.m. settled index options. The Exchange further represents that it will issue a circular to Phlx members disclosing this information. Accordingly, the Commission believes that it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to approve Amendment No. 5 to the Phlx proposal on an accelerated basis.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing amendments. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the

public in accordance with the provisions of 5 U.S.C. § 552, will be available for inspection and copying at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the Phlx. All submissions should refer to SR-Phlx-95-22 and should be submitted by November 10, 1995.

It Is Therefore Ordered, pursuant to Section 19(b)(2) of the Act,³⁶ that the proposed rule change (File No. SR-Phlx-95-22), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.³⁷

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 95-26004 Filed 10-19-95; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 35-26391]

Filings Under the Public Utility Holding Company Act of 1935, as Amended ("Act")

October 13, 1995.

Notice is hereby given that the following filing(s) has/have been made with the Commission pursuant to provisions of the Act and rules promulgated thereunder. All interested persons are referred to the application(s) and/or declaration(s) for complete statements of the proposed transaction(s) summarized below. The application(s) and/or declaration(s) and any amendments thereto is/are available for public inspection through the Commission's Office of Public Reference.

Interested persons wishing to comment or request a hearing on the application(s) and/or declaration(s) should submit their views in writing by November 6, 1995, to the Secretary, Securities and Exchange Commission, Washington, DC 20549, and serve a copy on the relevant applicant(s) and/or declarant(s) at the address(es) specified below. Proof of service (by affidavit or, in case of an attorney at law, by certificate) should be filed with the request. Any request for hearing shall identify specifically the issues of fact or law that are disputed. A person who so requests will be notified of any hearing, if ordered, and will receive a copy of any notice or order issued in the matter. After said date, the application(s) and/or declaration(s), as filed or as amended,

may be granted and/or permitted to become effective.

General Public Utilities Corporation
(70-8695)

General Public Utilities Corporation ("GPU"), 100 Interpace Parkway, Parsippany, New Jersey 07054, a registered holding company, has filed a declaration under sections 6(a) and 7 of the Act and rules 53 and 54 thereunder.

The General Public Utilities Corporation and Subsidiary System Companies Employee Savings Plan for Nonbargaining Employees and the Employee Savings Plan for Bargaining Unit Employees for each of GPU's electric utility subsidiaries, Jersey Central Power & Light Company, Metropolitan Edison Company and Pennsylvania Electric Company (collectively, "Savings Plans") are designed to encourage and assist savings and investment by eligible employees through voluntary contributions by employees of a portion of their compensation and by the matching of certain of such contributions by the participants' employers.

Amounts contributed to the Savings Plans by or on behalf of each participant are held by a trustee. Separate plan accounts and, as necessary, sub-accounts are maintained for each participant. The trustee invests the amounts held in plan accounts and sub-accounts in the investment fund or funds selected by the participant. The investment funds from which participants may choose currently consist of eleven funds including the "GPU Stock Fund" which is designed to provide employees with a convenient way to invest in GPU common stock by providing participants the opportunity to direct that all or a portion of their plan accounts be invested in the GPU Stock Fund.

The Savings Plans currently provide that GPU common stock acquired for the GPU Stock Fund by the trustee be purchased in open market transactions through brokers. In order to provide additional equity capital, GPU proposes that shares of its common stock acquired by participants through the GPU Stock Fund may be either purchased by the trustee directly from GPU or in open market transactions, as is now the case. Accordingly, GPU proposes to issue and sell from time to time through December 31, 2000, up to 250,000 authorized but unissued or previously reacquired shares of GPU common stock to participants under the Savings Plans.

The purchase price per share paid by participants would be the New York Stock Exchange closing price for GPU

³⁶ 15 U.S.C. 78s(b)(2).

³⁷ 17 CFR 200.30-3(a)(12).